

## Letter from the President of the Management Board

Ladies and Gentlemen, Dear Shareholders,

Once again, I am pleased to present to you the Annual Report of Stalprodukt S.A., presenting the results, the most important information about the Company's operations in 2021 and its prospects for the future.

The first year (i.e. 2020) of dealing with the global COVID-19 pandemic, along with many dramatic consequences, including several million victims and serious problems with ensuring the proper functioning of health care systems, it also had a huge impact on the economic situation of virtually all regions of the world, including Europe, contributing to the breakdown of supply chains, the collapse of many sectors of the economy, and consequently led to a serious decline in the GDP growth rate.

Last year brought a significant improvement in this regard. The universal vaccination program and the measures introduced to prevent the spread of the pandemic (quarantine, home isolation, personal protective equipment, remote work) have allowed many institutions, companies and workplaces to effectively reduce the negative impact of the coronavirus on the social and economic situation. Despite the increased absenteeism among Stalprodukt's employees due to the coronavirus, our Company also managed to effectively reduce the scale of the negative effects of the pandemic on our production and sales activities, which allowed us to ensure efficient and uninterrupted operation of all necessary internal areas and processes.

The recovery of many countries from the economic collapse caused by the pandemic was associated with a dynamic rebound in the level of orders and production - especially in industry and construction, and an increase in the level of services provided. The unprecedented increase in demand for goods and services led to soaring prices for electricity, natural gas and raw materials.

The increase in the prices of energy and natural gas was additionally driven by the enormous increase in the prices of CO2 emission allowances, which in the entire 2021 amounted to as much as 140%, reaching the level of EUR 86 / tonne at the end of December last year (in the first days of 2022 the price allowances approached almost EUR 100 / tonne).

Such a large increase in production costs had to translate into the prices of finished products. These increases also affected the steel industry. For example: the prices of hot-rolled sheets in coils, which are the basic input product for our production, increased 2.5 times only in the first 6 months of 2021.

This fact had a significant impact on the level of sales revenues obtained by Stalprodukt, which increased by 59.4% in the entire year, reaching the level of PLN 1,997.9 million. The Company's financial results improved even more compared to 2020 - the operating profit increased 10 times (to PLN 232.3 million), and the net profit 4 times, reaching PLN 220.1 million.

A significant improvement in revenues and results was recorded in both operating segments of the Company, i.e. Electrical Sheets and Profiles.

In the case of the Electrical Sheets Segment, revenues increased by almost 60 percent, and the Segment's result by 323.3 percent, with a margin increase by 20.8 percent. The share of this Segment in the sales structure remained at the level of 2020 and amounted to 34.8 percent.

The Profiles Segment's revenues increased to a slightly greater extent, i.e. by 63.2 percent, while the Segment's result increased by 872.0 percent, with a margin increase to 13.7 percent. The share of the Profiles Segment in the sales structure increased slightly (i.e. by 1.1 ppt) - to the level of 46.2 percent.

In terms of other activities, significant increases in revenues (by 50.0 percent) and results were also achieved (from PLN 464 thousand in 2020 to PLN 12.9 million in 2021).

It should be emphasized that access to cash and high financial liquidity allowed the Company to cover the higher demand for working capital, thus enabling the fulfillment of obligations towards both customers and suppliers.

The Stalprodukt Management Board welcomed the decision of the European Commission to extend the protection of the European transformer sheets market against excessive imports from China, Japan, Korea, Russia and the USA for another 5 years. The Commission Regulation maintains the mechanism of minimum import prices and the price levels for individual product groups (differing in the level of magnetic loss), as set out in the original Implementing Regulation of October 29, 2015. According to the published position of EUROFER, the EU energy security and climate objectives can be achieved only by maintaining a viable European GOES industry. In addition, it was found that transformer sheets are a strategic "top shelf" product, and the European Union cannot be dependent on foreign steel mills located in Asia, Russia or the United States in terms of supplies.

Due to the coronavirus pandemic and significant administrative restrictions introduced centrally in the operation of the hotel industry, the Management Board has repeatedly postponed the date of launching operations by the newly built Hotel Ferreus in Krakow. Ultimately, we decided to start this activity at the end of the first half of 2022. Currently, staff recruitment, IT systems integration and other necessary preparatory activities are underway.

The process of reviewing strategic options, launched in 2020, has significantly extended due to the unfavorable environment, including mainly the coronavirus pandemic. During its course, the Company held talks with several interested entities, but they did not go beyond the initial stage, and the proposed conditions did not meet the basic expectations of the Management Board as to ensuring the feedstock primarily for the production of high grades of transformer sheets and ensuring favorable conditions for further development of individual operational segments.

Taking into account the above-mentioned conditions, the improvement of the situation in the steel industry, mainly in terms of price increases and better prospects for the future, as well as the improvement of the quality of the charge for HiB sheets from the current supplier, the Management Board will soon recommend to the Supervisory Board to maintain the current scope of the Company's activities.

At the same time, assumptions regarding new elements of strategic activities will be presented. Next year, new challenges await the Company, resulting mainly from external conditions. The increasing burden of energy and natural gas costs forces the Company to look for solutions to reduce these costs.

After the coronavirus pandemic, which seems to be coming to an end, a large part of the world (directly and indirectly), especially Europe, was hit at the end of February 2022 by the consequences of another dramatic event, i.e. the war in Ukraine. As a result of the attack by Russia, the Ukrainian

nation is experiencing a huge tragedy due to thousands of victims among the civilian population, several million refugees (of which by far the largest part went to Poland) and massive damage to civilian buildings (residential buildings, hospitals, schools) and widely understood infrastructure. Various political and economic sanctions packages imposed on Russia by the United States and the European Union, affect the level of trade with this country and disrupt the supply chains developed over the years. On the other hand, the fact that a large part of Ukraine is affected by hostilities prevents this country from carrying out normal economic activity, which leads to a huge decline in the GDP level, the recovery of which will probably take many years.

So far, Stalprodukt has made only supplementary purchases of feedstock both from Ukraine and Russia. At present, the Management Board is making efforts to replace these supplies with purchases from other directions, i.e. from European mills, mainly from plants operating within the ArcelorMittal concern, the largest and long-term supplier of Stalprodukt. The above-mentioned conditions and the expected further restrictions in the import of raw materials from Russia (especially crude oil and natural gas) contribute to even greater increases in energy prices, which will adversely affect the level of production costs in European economies, strongly dependent on supplies from this direction. This, in turn, is fueling the already high level of inflation, which is a negative phenomenon in itself.

I would like to take this opportunity to thank the staff and management of Stalprodukt for their commitment, work and dedication to the Company obtaining the best production and sales results in 2020.

I hope that our shareholders will appreciate the actions taken by the Stalprodukt Management Board for the long-term growth of the Company's value.

Piotr Janeczek

President of the Management Board - General Director Stalprodukt S.A.